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BONAVISTA

PETROLEUM LTD.

ANNUAL REPORT 2000

CORPORATE PROFILE

Bonavista Petroleum Ltd. is a Calgary, Alberta-based intermediate oil and natural gas exploration, development and production company actively expanding its production and reserve base in Western Canada. In November 1997, Bonavista appointed a new management team with a mandate to improve performance, expand the Company's asset base and strengthen its financial position. Bonavista's corporate objective is to demonstrate sustainable per share growth in production, reserves, cash flow, earnings and asset value for its shareholders. Bonavista is listed on The Toronto Stock Exchange under the symbol "BNP".

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NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of the Shareholders of Bonavista Petroleum Ltd. will be held at 3:00 PM on Tuesday May 22, 2001, in the McMurray Room of the Calgary Petroleum Club, located at 319 - 5th Avenue SW, Calgary, Alberta. Shareholders who are unable to attend this meeting are requested to complete and return their proxies to the CIBC Mellon Trust Company at their earliest convenience.

CORPORATE HIGHLIGHTS

December 31,	2000	1999	% Change
FINANCIAL			
(thousands, except per share amounts)			
Production revenue	**$ 214,168**	$ 72,135	197%
Cash flow from operations	**139,059**	46,067	202%
Per share – basic	**4.90**	1.83	168%
Per share – diluted	**4.65**	1.64	184%
Net income	**61,360**	17,098	259%
Per share – basic	**2.16**	0.68	218%
Per share – diluted	**2.05**	0.61	236%
Working capital (deficiency)	**7,169**	(10,776)	167%
Total assets	**325,842**	177,502	84%
Long-term debt	**75,534**	43,221	75%
Shareholders' equity	**170,565**	107,860	58%
Net capital expenditures	**154,637**	101,416	52%
Common shares outstanding at year-end			
Basic	**28,476**	28,257	1%
Fully diluted	**30,757**	30,528	1%
OPERATING			
Production			
Natural gas (mmcf/day)	**109.1**	65.9	66%
Oil and liquids (bbls/day)	**1,869**	873	114%
Oil equivalent (boe/day)	**12,776**	7,462	71%
Product prices			
Natural gas ($/mcf)	**4.67**	2.67	75%
Oil and liquids ($/bbl)	**40.65**	25.22	61%
Oil equivalent ($/boe)	**45.80**	26.49	73%
Cash flow netback ($/boe)	**29.74**	16.91	76%
Operating expenses ($/boe)	**3.28**	3.37	(3%)
General and administrative expenses ($/boe)	**0.21**	0.32	(34%)
Undeveloped land			
Gross acres	**755,949**	513,953	47%
Net acres	**642,507**	416,396	54%
Average working interest	**85%**	81%	4%
Proven plus probable reserves			
Natural gas (bcf)	**289.9**	223.6	30%
Oil and liquids (mbbls)	**8,665**	3,337	160%
Oil equivalent (mboe)	**37,645**	25,699	46%
Finding and on-stream costs ($/boe)			
Proven	**11.71**	8.32	41%
Proven and probable	**9.29**	7.01	33%

STRIVING FOR EXCELLENCE IN OPERATIONS

Bonavista executed its largest capital program to date of $154.6 million ▪ Drilled 134 wells with an 84 percent success rate ▪ Increased daily average production by 71 percent over 1999 ▪ Added significant reserves through drilling and acquisitions by replacing 355 percent of 2000 production ▪ Installed or purchased an interest in 19 new compressor stations in Core Regions ▪ Completed 36 synergistic acquisitions in Bonavista's four Core Regions ▪ Expanded net undeveloped land by 54 percent, of which 98 percent is located in our Core Regions ▪ Increased operatorship of production base to 96 percent

ACHIEVING OUR 2000 TARGETS

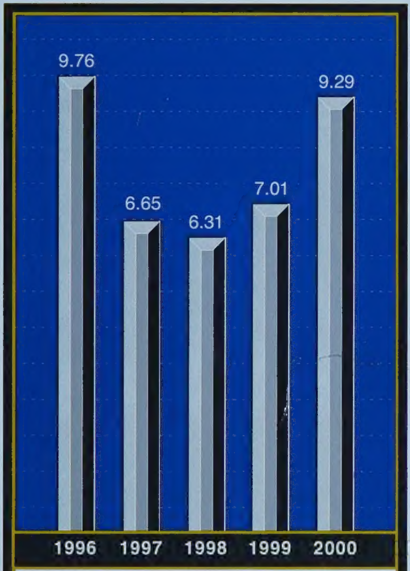
		Actual	Initial 2000 Target
Production (boe/day)	– 2000 Average	**12,776**	11,800
	– 2000 Exit	**14,800**	13,200
Undeveloped land (net acres)		**643,000**	550,000

OUR 2001 TARGETS

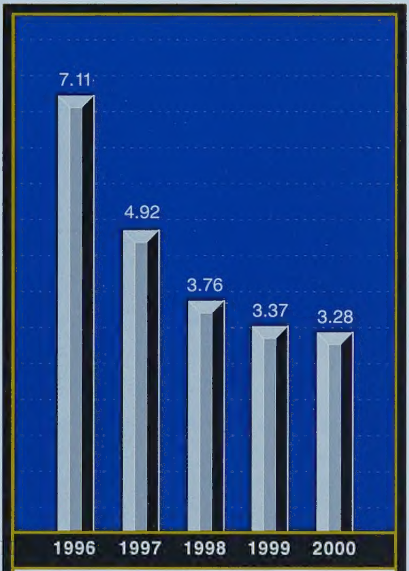
- Production of 16,500 boe per day (135 mmcf per day of natural gas and 3,000 bbls per day of oil and liquids)
- Increase average working interest and undeveloped land position to 800,000 net acres

STRIVING FOR EXCELLENCE IN FINANCIAL CONTROL

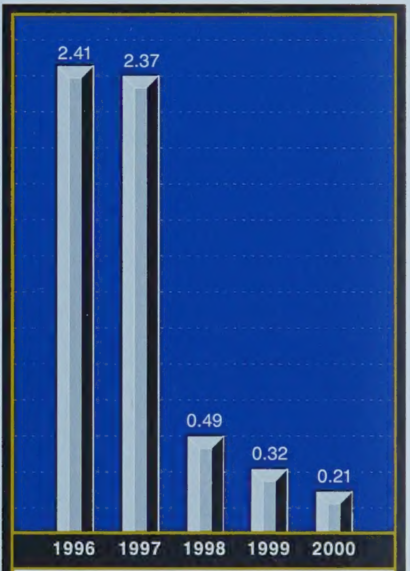
Bonavista operated 96 percent of all wells drilled in 2000 Effective cost controls improved economics and maintained low finding and on-stream costs Achieved ranking as one of the five lowest cash-cost producers in the industry in 2000 Increased production throughput of underutilized facilities, reducing operating expenses per boe by 3 percent Increased efficiency of office overhead costs, resulting in a 34 percent decrease of general and administrative expenses on a per boe basis Maintained financial flexibility with year-end debt to running cash flow of 0.3 to 1 Expanded Bonavista's bank facility from $90 million to $160 million



FINDING AND ON-STREAM COSTS ($/boe)



OPERATING EXPENSES ($/boe)



GENERAL AND ADMINISTRATIVE EXPENSES ($/boe)

ACHIEVING OUR 2000 TARGETS

	Actual	Initial 2000 Target
Operating expenses ($/boe)	$ 3.28	$ 3.30
General and administrative expenses ($/boe)	$ 0.21	$ 0.30
Debt to running cash flow ratio	0.3:1	less than 2.0:1

OUR 2001 TARGETS

- Maintain operating expenses less than $3.75 per boe
- Maintain general and administrative expenses at $0.30 per boe
- Retain financial flexibility with debt less than two times cash flow

OUR STRENGTH IS OUR PEOPLE

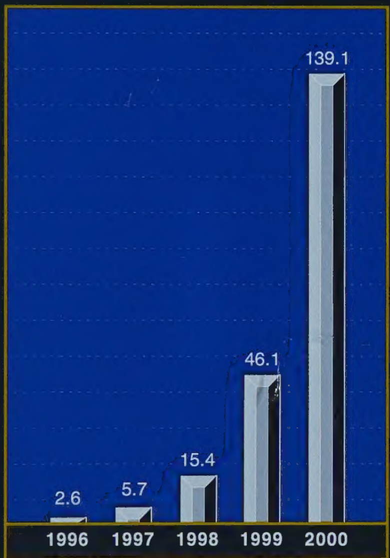
The foundation of all successful companies is determined by those who build it. To be profitable requires synergy. A Company achieves that by having a balance of skill, foresight and drive. It is also necessary to have a clear and common purpose to blend that dynamism. The people at Bonavista bring a multitude of talent to the mix and that is what makes our foundation so strong. Expanding our foundation and growing profitably is achievable only through the persistent effort and competence of this team. Our greatest strength truly is our people.

OUR FOCUS IS PROFITABLE GROWTH

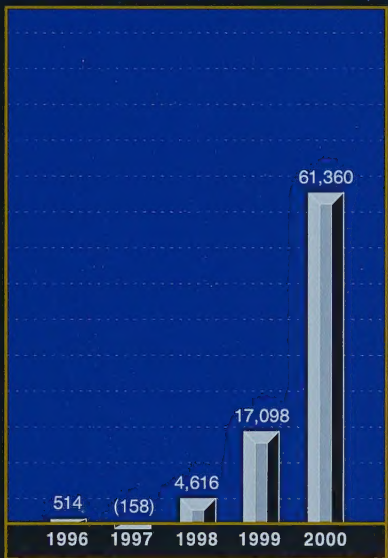
Capable people, sound ideas and vision do not alone guarantee success, but when coupled with a single-minded commitment to a sound business plan, focused on sustainable, long-term profitability, growth is certain to follow. Bonavista has a commitment to their shareholders to grow profitably. We are determined to concentrate our efforts on fortifying the foundation we have built and will continue to employ the strategies that have led to Bonavista's consistent success. We remain focused on profitable growth.

STRIVING FOR EXCELLENCE IN VALUE CREATION

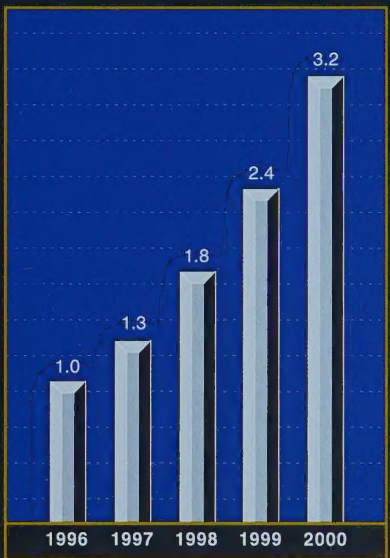
Increased 2000 cash flow by 202 percent to $139 million or $4.90 per share ■ Improved cash flow per boe by 76 percent to $29.74, top decile performance in the industry ■ Earned net income of $61 million or $2.16 per share ■ Increased net income to cash flow ratio to 44 percent ■ Attained a recycle ratio of 3.2 to 1 on a proven plus probable reserves basis, and 2.5 to 1 on a proven reserves basis ■ Improved return on shareholders' equity to 44 percent



CASH FLOW
($ millions)



NET INCOME
($ thousands)



RECYCLE RATIO
(cash flow netback/
finding and on-stream costs)

ACHIEVING OUR 2000 TARGETS

	Actual	Initial 2000 Target
Cash flow ($ millions)	$ 139.1	$ 76.0
Cash flow per share	$ 4.90	$ 2.78
Recycle Ratio	3.2:1	greater than 2.0:1

OUR 2001 TARGETS

- Cash flow of $220 million or $7.70 per share (basic)
- Net income of $95 million or $3.30 per share (basic)
- Invest in opportunities which achieve a greater than 2.0:1 recycle ratio

MESSAGE TO SHAREHOLDERS

The year 2000 marks Bonavista's third year of record, profitable growth since the November 1997 appointment of the Company's new management and the creation of a restructured business plan. Under this plan, the management team has steadily focused on creating a sustainable, profitable company that consistently generates value for their shareholders.

We have exceeded our targets each of the past three years including 2000, with record-setting growth in reserves, production, cash flow, and net income on both an aggregate and a per share basis. In 2000, Bonavista reached a significant production milestone which advanced the Company into the intermediate category of oil and natural gas producers.

Our sustained efforts of the past three years and our ongoing focus on profitability are particularly important today, when investors appear to have lost confidence in the general markets. The oil and natural gas industry as a whole is a much different business than it was even five years ago. Today, it is driven increasingly by profitability and return on equity. Growth in production and cash flow, once the sole determinants of investment worthiness, are being replaced by bottom line results in the minds of investors. Profitability is central to Bonavista's business plan. Over the past three years, we have worked diligently to execute our plan and to build a foundation that would generate sustainable growth and value creation. The results of the past three years have substantiated this plan and have served to deepen our commitment to it.

We are proud of the depth and breadth of abilities that make up our team and how these skills contribute to the benefit of shareholders and coworkers alike. Our people are what make Bonavista thrive in the competitive environment in which we work and enable us to respond quickly and effectively to the ebb and flow of the energy industry.

"At Bonavista, everyone possesses a strong sense of ownership, as well as the fundamental values of integrity, respect, dedication and commitment to pursuing excellence."

While prudent operational growth and stringent financial discipline have led to excellent results to date, we are proud of achievements that go beyond these numbers. Bonavista's team of dedicated men and women have ensured that our vision is not mere rhetoric, but a reality. Their consummate skill and commitment to our vision ensure that all of the projects we undertake, whether large or small, contribute to the bottom line and value creation for our shareholders. Our people devise the systems and controls that backstop the human effort of finding oil and natural gas, and each member of the Bonavista team recognizes the importance of adhering to our principles and strategies.

STRATEGIES FOR PROFITABLE GROWTH

The many successes experienced in the year 2000 are a direct consequence of staying the course of our initial business strategies. Hard work, focus, technical expertise, and operational and financial control form the foundation upon which we build and continue to reinforce our position. The key principles of these strategies are:

- **Building a qualified and experienced team** - A dedicated and determined team, given the proper tools and working environment, can create a top performer in any industry. To date, Bonavista has assembled a team of 49 well qualified people, all of whom are shareholders and all of whom are committed to the continuous improvement of our performance.

  Commitment at the philosophical level is important, but making a company profitable requires much more. While each individual is innovative and adept at seeing the "big picture", attention to detail and contributing to the decision-making process are equally important. Each member of the Bonavista team has a strong sense of ownership in the Company, and shares the fundamental values of integrity, respect, dedication and commitment to pursuing excellence. Each person not only contributes in an individual way, but also as a member of the team. Amid the abundance of skill, there is a unique chemistry at Bonavista that is evident as it permeates our ranks and makes us strong.

  Armed with these ideals, Bonavista's challenge will be to retain and expand on the strength of our human resources and to continue executing our corporate strategy. As Bonavista grows, discipline and attention to detail at every level remain critical. Bonavista does not focus on the high risk plays. We are driven instead by project economics. Every prospect must withstand our rigorous economic criteria, such as return on investment and recycle ratio. The final decision to proceed is always determined after drawing upon the breadth of our team's experience and ability.

  At Bonavista, we believe our ongoing commitment to cultivating a productive and stimulating environment for our employees, based on fundamental values and a strong business plan, will enable each individual to achieve their full potential which ultimately benefits the Company and our shareholders. Our strength truly is our people. Our shared focus is profitable growth.

- **Achieving operational control and dominance** - Dominance in our Core Regions through a strong land position, operatorship and

ownership of facilities and gathering systems is paramount to controlling the timing and cost of exploration and development activities, as well as the speed and efficiency of tying-in production. As a result of strengthening our Core Regions, we currently have an average working interest in our production base of 96 percent. Today we operate approximately 97 percent of our production and in 2000 we operated 128 of 134 wells drilled. Our high working interest ownership of a large number of facilities and infrastructure in our Core Regions ensures rapid conversion of undeveloped land and nonproducing reserves into producing reserves, and enables us to maintain our competitive advantage. By maintaining control and dominance in Core Regions, we can maximize the value of Bonavista's existing and future assets.

Enforcing strict cost control - One of our top priorities is to reduce unit costs wherever possible by maintaining control of our operations and by ensuring spending efficiency. We strive to attain the highest possible reinvestment efficiency, by continuously monitoring all aspects of our spending, including finding and on-stream, operating, general and administrative, and interest costs. We work hard to optimize our use of capital and maximize the return each project generates for our shareholders. We regularly conduct detailed reviews of each of our areas in order to streamline our operations and lower our cost of doing business. We believe Bonavista's long-term profitable growth depends on our ability to continue to be one of the industry's lowest-cost finders and producers.

Maintaining financial flexibility - Financial flexibility is an essential element in the capital-intensive oil and natural gas business. By investing our shareholders' capital wisely and quickly converting the investment to cash flow, we can achieve top decile growth, while maintaining a strong balance sheet that includes a debt to running cash flow ratio of less than two to one. A strong balance sheet places us in an excellent position to take advantage of the many opportunities the industry has to offer.

2000 ACHIEVEMENTS

The year 2000 was the third full year since Bonavista's new management team restructured the Company's operations. The Bonavista team is pleased to report to shareholders that in 2000 we again met or exceeded all of our objectives set out at the beginning of the year. Some of the key achievements were:

Improved return on investment and profitability - Lower unit operating and general and administrative costs and a high weighting to natural gas combined to provide a corporate cash flow netback of $29.74 per boe of production, one of the highest reported in the industry in 2000. This high netback, compared to a finding and on-stream cost of $9.29 per boe of reserves added, resulted in a 3.2:1 recycle ratio, which is top decile performance. Consequently, bottom-line profitability improved dramatically. Net income grew from $17.1 million, or $0.68 per share, in 1999 to $61.4 million, or $2.16 per share, in 2000. This level of net income provided shareholders with a return on equity of 44 percent which are extraordinary results in any industry.

Reduced controllable costs - This is an ongoing area of focus for every Bonavista employee, and during 2000, we continued to improve Bonavista's cost structure. In 2000, this focus paid off in measurable reductions to three key cost components of our business. Bonavista reduced operating costs per boe by 3 percent, general and administrative costs per boe by 34 percent, and overall total cash costs per boe by 2 percent. Conversely, the majority of the oil and natural gas industry experienced increases of 15 to 20 percent in these important categories. Although our unit finding and on-stream costs increased in 2000 due to increased industry activity, Bonavista generated higher economic returns as reflected in the improvement of its recycle ratio. Overall, Bonavista maintained its status as one of the lowest-cost producers in the industry. Going forward, we will continue to look for further efficiencies in all areas of controllable costs.

Increased undeveloped land base and prospect inventory - Commensurate with increasing production, cash flow and net income levels, we significantly enhanced our undeveloped land position. At year-end 2000, Bonavista held 642,507 net acres of undeveloped land, with an average working interest of 85 percent. This was an increase in undeveloped land of 226,111 net acres, or 54 percent, over year-end 1999. Ninety-eight percent of our undeveloped land position exists within our four Core Regions of activity. This land base provides Bonavista with an excellent drilling prospect inventory for 2001 and beyond.

Expanded Core Regions - Virtually all of Bonavista's increases in reserves and production in 2000 were derived from the four Core Regions described in our 1999 annual report: the Northern, Eastern, Southern and the Central Regions. In the Northern Region, an active drilling and acquisition program increased Bonavista's exit production rate to 4,975 boe per day from 3,900 boe per day in 1999. In the Eastern Region, Bonavista increased production to 4,250 boe per day at year-end 2000 from 1,950 boe per day at year-end 1999. In the Southern Region, the 2000 exit production rate increased to 2,050 boe per day from 1,250 boe per day at year-end 1999. Finally, in the Central Region, the 2000 exit production rate increased to 1,950 boe per day from 1,300 boe per day in 1999. Overall, the Company's total production grew to 14,800 boe per day at year-end 2000 from 9,600 boe per day at year-end 1999, a year-over-year increase of 54 percent. In addition, 19 new compressor facilities were purchased or installed in the four Core Regions in 2000, adding to our control and dominance.

"We endeavor to achieve the highest possible reinvestment efficiency, and to that end continuously monitor all aspects of our spending, including finding and on-stream, operating, general and administrative, and interest costs."

"The changes we have implemented to date have transformed Bonavista into a dynamic, intermediate oil and natural gas producer."

2001 OUTLOOK

The changes we have implemented to date have transformed Bonavista into a dynamic intermediate oil and natural gas producer. This growth is underpinned by our strong asset base, which we significantly expanded in 2000 by investing $154.6 million in exploration, development and acquisitions in our four Core Regions.

Bonavista's proven strategy continues to be evident in our first quarter 2001 results. We have drilled 43 wells in the first three months, resulting in 29 natural gas wells and 4 oil wells. During the remainder of the year, we plan to drill up to 120 additional wells in our four Core Regions and will continue to pursue complementary property acquisitions. Accordingly, Bonavista has set a capital budget of $170 million for 2001, including $80 million for property acquisitions. Our 2001 budget is based upon an average benchmark commodity price of CDN $6.25 per thousand cubic feet of natural gas at the Alberta plantgate and US $25.00 per bbl for West Texas Intermediate oil.

Under these budget assumptions, Bonavista will increase its average production volumes to 135 mmcf per day of natural gas and 3,000 bbls per day of oil and liquids. This program is expected to generate cash flow in excess of $220 million, or $7.70 per share, and net income of $95 million, or $3.30 per share. Production at the end of the first quarter was 126 mmcf per day of natural gas and 3,000 bbls per day of oil and liquids, or 15,600 boe per day, providing an excellent foundation for accomplishing our 2001 targets.

Oil and natural gas prices remain volatile and therefore require considerable attention when planning capital programs. Recognizing that industry conditions change quickly, Bonavista has the flexibility to readily accelerate or reduce its capital program.

We believe Bonavista is strategically positioned operationally and financially to report record results through 2001 and beyond. Our proven growth strategy, focused and dedicated staff, extensive property inventory and the tremendous support from our existing shareholders will allow us to continue to take advantage of the potential offered by the Western Canadian Sedimentary Basin. We are determined to keep Bonavista on track for profitable growth.

We wish to thank all of our shareholders for their support in the implementation of this business plan, our Board of Directors for their guidance and our employees for their dedicated efforts.

Keith A. MacPhail
President and Chief Executive Officer

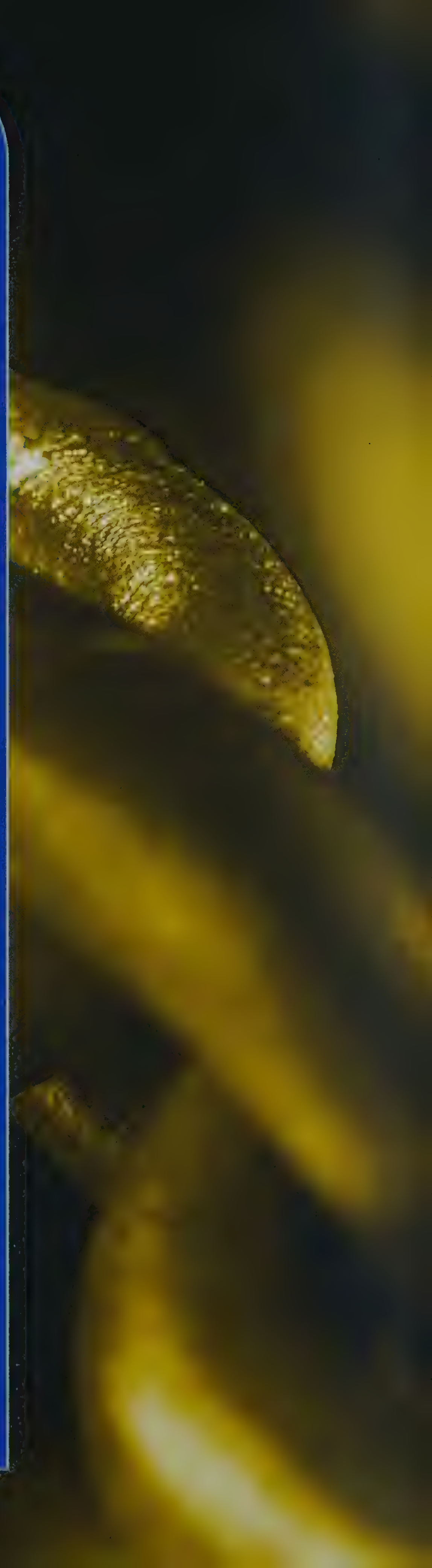
Ronald J. Poelzer
Executive Vice President
and Chief Financial Officer
April 10, 2001

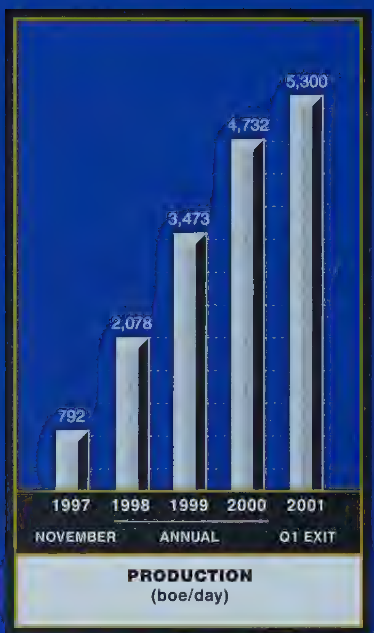
OPERATIONS AND EXPLORATION REVIEW

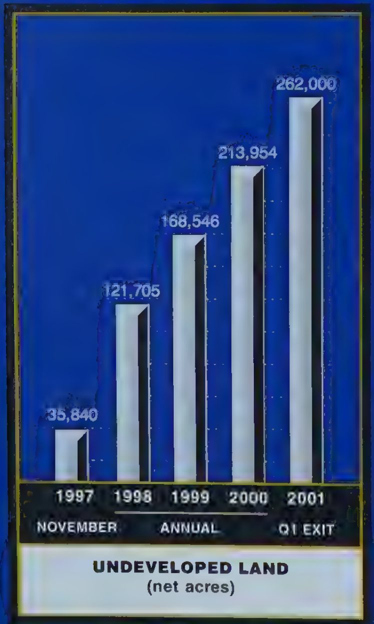
During 2000, Bonavista's asset base grew significantly through the investment of $154.6 million in exploration, development and acquisitions in its four core operating regions. This active exploration and development program included the drilling of 134 wells, primarily in our Northern, Eastern, Central and Southern Core Regions, with an overall success rate of 84 percent. Bonavista operated 128 of 134 wells drilled with an average working interest of 90 percent. To accommodate the new production from our drilling success, Bonavista installed or purchased an interest in 19 new compressor facilities in our Core Regions.

Operatorship and high working interest ownership remain essential components of our business plan, and help ensure maximum benefit to our shareholders and control of the company's future growth. In addition to the exploration and development program in 2000, Bonavista consummated 36 complementary acquisitions in its existing Core Regions. The most significant of these occurred in the third quarter in our Eastern Region and resulted in the acquisition of over 10 mmcf per day of uncontracted natural gas production, 9 additional natural gas facilities and 65,000 net acres of undeveloped land. These four regions will be the primary areas of focus for Bonavista's 2001 development program.

The program's record capital budget of $170 million will be comprised of $90 million for exploration and development and $80 million for Core Region acquisitions. Bonavista's capital expenditures are forecast to result in growth of more than 29 percent in the 2001 daily average production rate to approximately 16,500 boe per day from 12,776 boe per day in 2000.







1 NORTHERN REGION

The Northern Region is currently producing 48 mmcf per day of natural gas and 500 bbls per day of oil and liquids, up from the daily average of 44.1 mmcf per day of natural gas and 322 bbls per day of oil and liquids in 2000. In this region we currently have an average working interest of 93 percent in 262,000 net acres of undeveloped land, and operate 15 facilities which are all 100 percent owned and have a combined processing capacity of approximately 60 mmcf per day.

During 2000, Bonavista conducted a very active exploration, development and acquisition program in its Northern Region totaling $67.1 million in capital expenditures. The program included drilling 45 wells, installing 3 new compressors, increasing undeveloped land by 45,408 net acres and the consummation of five property purchases.

The Northern Region includes several properties, all operated by Bonavista, that collectively accounted for:

- **43 percent of 2000 capital expenditures**
- **37 percent of 2000 production volumes**
- **34 percent of proven and probable reserves at December 31, 2000**
- **33 percent of undeveloped land holdings at December 31, 2000**

Bonavista plans to spend $40 million of the 2001 capital program in this area, including drilling up to 60 wells, and installing two compressors. In the first quarter of 2001, Bonavista had an active drilling program in the Northern Region, including 24 wells, and the installation of one new natural gas compressor facility to accommodate a new discovery in the eastern part of this area.

2 EASTERN REGION

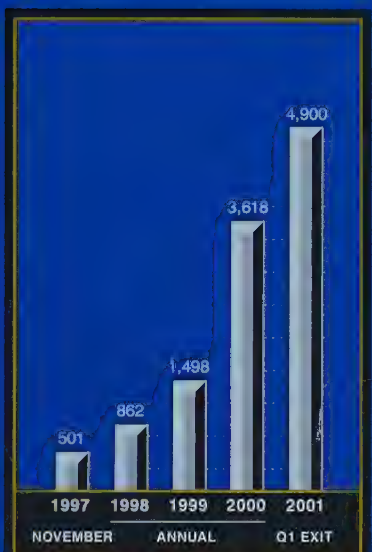
In the Eastern Region, Bonavista has an average working interest of 88 percent and operates 16 natural gas facilities with a combined processing capacity of over 65 mmcf per day net to Bonavista. The Company has ownership interests in various gathering systems and pipelines which span in excess of 500 kilometers in this region, allowing new reserves to be brought on-stream quickly and cost-effectively.

During 2000, Bonavista invested $49.7 million in the Eastern Region, including drilling 42 wells, installing or purchasing ten compressors and increasing our undeveloped land position by 172,320 net acres. In addition, we completed one major transaction in the area in the third quarter of 2000, acquiring 10 mmcf per day of uncontracted natural gas production, nine additional natural gas facilities and approximately 65,000 net acres of undeveloped land.

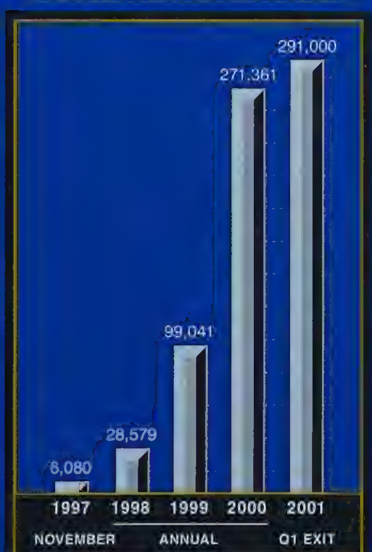
As a result of tying-in recently drilled wells, current production from this region is 46.0 mmcf per day of natural gas and 300 bbls per day of oil and liquids, compared to an average of 34.6 mmcf per day and 159 bbls per day of oil and liquids in 2000. The Eastern Region properties, all of which Bonavista operates, accounted for:

- **32 percent of 2000 capital expenditures**
- **28 percent of 2000 production volumes**
- **28 percent of proven and probable reserves at December 31, 2000**
- **42 percent of undeveloped land holdings at December 31, 2000**

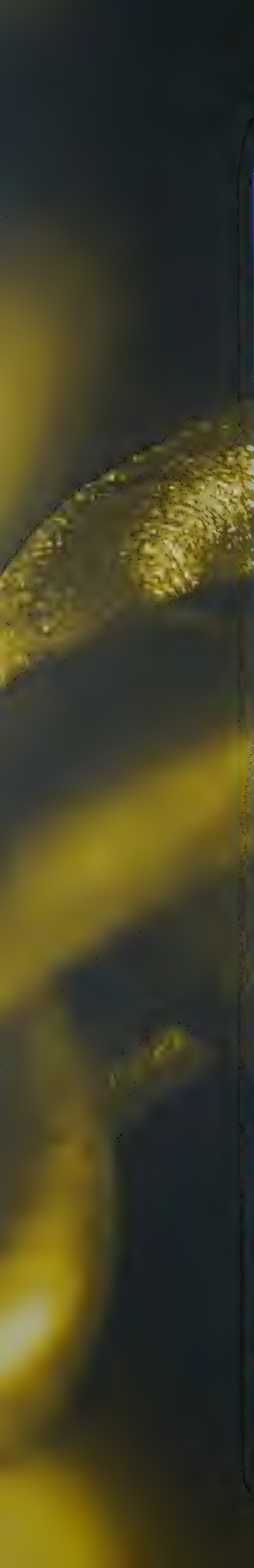
In 2001, Bonavista plans to invest $22 million of capital in the Eastern Region, including drilling 50 wells and recompleting 10 additional wells. These projects are forecast to expand production to approximately 50 mmcf per day of natural gas and 350 bbls per day of oil and liquids by year-end 2001.



PRODUCTION
(boe/day)



UNDEVELOPED LAND
(net acres)



Bonavista's major properties and activities are concentrated within four core regions in Alberta. As a result of our strategic positioning in each region, Bonavista has significant opportunities to expand its exploration and development programs and continue with its synergistic property acquisitions programs. These core regions constitute a well-balanced portfolio of Company-operated producing properties and exploration and development prospects with considerable upside potential. The four core operating regions are the Northern, Eastern, Southern and Central Regions. Bonavista also has less significant operations in southeastern Saskatchewan.

NORTHERN REGION

Established in 1997, the Northern Region is currently Bonavista's largest core region, located north of the city of Peace River in northwest Alberta. This region is characterized by moderate-deliverability natural gas reserves in multiple, medium-depth horizons in the Devonian, Triassic and Cretaceous formations.

EASTERN REGION

Bonavista's Eastern Region is the Company's second largest core region. It was also created in 1997 and is located along the Alberta/Saskatchewan provincial border extending between the towns of Oyen and Cold Lake, Alberta. This region is characterized by production from shallow to medium-depth, multi-zone horizons, primarily from the Second White Specks, Colony, Viking, Glauconite and Detrital zones.

SOUTHERN REGION

Bonavista's Southern Region was established through two acquisitions in mid-1998 and is located adjacent to the city of Lethbridge in southern Alberta. This region is characterized by production from medium-depth, multi-zone horizons, primarily from the Bow Island, Basal Colorado and Barons Sandstone zones, with deeper exploration potential in the Mississippian and Devonian formations.

CENTRAL REGION

The Central Region is Bonavista's newest core region. It was established in 1999 through six property acquisitions and is located approximately 50 miles northwest of the city of Edmonton, Alberta. This region has the potential for higher impact prospects and is characterized by prolific oil and natural gas production from medium-depth, multi-zone horizons, primarily from the Nordegg, Banff, Glauconite, Viking and Belly River zones.

STRIVING FOR PROFITABLE GROWTH

Year	PRODUCTION Natural Gas (mmcf/day)	Oil and Liquids (bbls/day)	Combined (boe/day)	UNDEVELOPED LAND Net Acres (thousands)	Average Interest (%)	DRILLING Activity (wells)
1 NORTHERN REGION						
November, 1997	7.5	42	792	35,840	62.4	–
Annual 1998	18.3	248	2,078	121,705	91.9	31
Annual 1999	32.2	253	3,473	168,546	92.4	42
Annual 2000	44.1	322	4,732	213,954	91.2	45
Q1 2001 Exit	48.0	500	5,300	262,000	93.0	24 (ytd)
2 EASTERN REGION						
November, 1997	4.8	21	501	6,080	46.8	–
Annual 1998	8.2	42	862	28,579	70.7	8
Annual 1999	14.2	78	1,498	99,041	79.9	20
Annual 2000	34.6	159	3,618	271,361	87.8	42
Q1 2001 Exit	46.0	300	4,900	291,000	88.0	10 (ytd)
3 SOUTHERN REGION						
May, 1998	0.9	–	90	960	18.2	–
Annual 1998	3.2	2	322	83,927	73.9	–
Annual 1999	10.2	26	1,046	84,390	74.8	23
Annual 2000	12.2	509	1,729	105,343	76.3	39
Q1 2001 Exit	15.0	700	2,200	107,000	77.0	8 (ytd)
4 CENTRAL REGION						
April, 1999	1.9	–	190	2,059	67.2	–
Annual 1999	7.4	201	941	18,792	77.1	4
Annual 2000	14.9	457	1,946	39,222	93.2	5
Q1 2001 Exit	15.0	550	2,050	40,000	93.0	1 (ytd)

3 SOUTHERN REGION

The Southern Region was a region created by Bonavista in mid-1998 through two strategic property acquisitions. These initial acquisitions were comprised of 6.5 mmcf per day of natural gas production, three operated natural gas plants with a combined processing capacity of 27 mmcf per day and 84,000 net acres of undeveloped land.

During 2000, Bonavista invested $26.3 million in the Southern Region which included drilling 38 wells, installing two compressors and increasing our undeveloped land position to 105,343 net acres. Bonavista also has the opportunity to earn an additional 55,000 acres of land through special exploration permits with the Blood First Nations.

The Southern Region properties, all of which are operated by Bonavista, collectively accounted for:

- **17 percent of 2000 capital expenditures**
- **14 percent of 2000 production volumes**
- **19 percent of proven and probable reserves at December 31, 2000**
- **17 percent of undeveloped land holding at December 31, 2000**

As a result of Bonavista's first quarter 2001 capital program, current production from the Southern Region is 15.0 mmcf per day of natural gas and 700 bbls per day of oil and liquids, up from a daily average of 12.2 mmcf per day and 509 bbls per day respectively, in 2000. Bonavista plans to invest a total of $17 million in exploration and development activities in the Southern Region throughout 2001 which will fund the drilling of 30 wells, installing a new compressor station and tying-in new and previously drilled wells. These projects will continue to expand natural gas production in the area to approximately 18 mmcf per day by year-end. In addition, the light oil discovery made in this region in mid-1999 will be pursued more aggressively and involve a pilot waterflood project in 2001, which is anticipated to increase oil production to over 1,000 bbls per day by year-end.

PRODUCTION
(boe/day)

UNDEVELOPED LAND
(net acres)

4 CENTRAL REGION

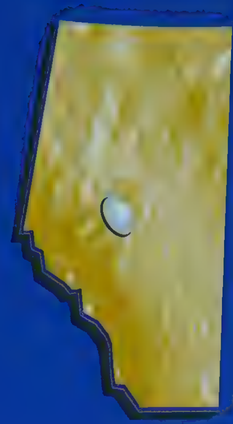
The Central Region is Bonavista's newest core region which was established through six property acquisitions in 1999. Bonavista currently has an average working interest exceeding 95 percent in this area, and operates two natural gas plants with processing capacity of 15 mmcf per day and an oil battery with treating capacity of 1,000 bbls per day. Bonavista has ownership interests in various gathering systems and pipelines which span more than 40 kilometers, allowing Bonavista to bring new reserves on-stream quickly and cost-effectively.

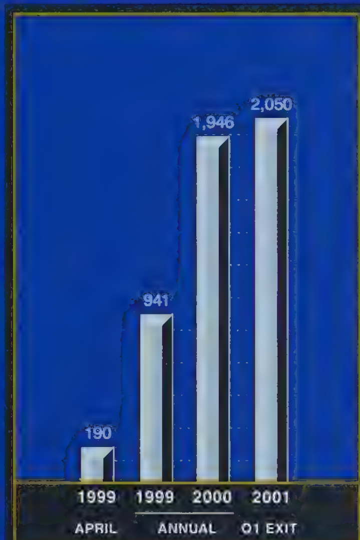
During 2000, Bonavista invested $10.4 million in the Central Region which included acquisitions, drilling 5 wells and increasing our undeveloped land position to 39,222 net acres.

As a result of workovers and tying-in recently drilled wells, production from this area is currently averaging 15 mmcf per day of natural gas and 550 bbls per day of oil and liquids. The Central Region properties, virtually all of which Bonavista operates, accounted for:

- **7 percent of 2000 capital expenditures**
- **15 percent of 2000 production volumes**
- **13 percent of proven and probable reserves at December 31, 2000**
- **6 percent of undeveloped land holdings at December 31, 2000**

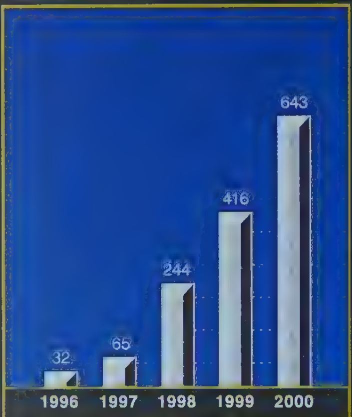
In 2001, Bonavista plans to invest $10 million of capital in the Central Region including drilling 12 wells and recompleting 6 additional wells. These projects are expected to increase production to approximately 17 mmcf per day of natural gas and 600 bbls per day of oil and liquids by year-end 2001.





PRODUCTION
(boe/day)

UNDEVELOPED LAND
(net acres)



UNDEVELOPED LAND
(thousands of net acres)

UNDEVELOPED LAND

Bonavista recognizes the importance of continually expanding its undeveloped land base in order to maintain an inventory of drilling prospects sufficient to sustain the Company's growth. Therefore, Bonavista expanded its land base significantly in 2000 through participation in Crown land sales, industry farm-ins and acquisitions of producing properties which included undeveloped land. In 2000, Bonavista increased its land base by 54 percent to 642,507 net acres. Of this increase, 145,000 acres were acquired at Crown land sales at an average cost of $76 per acre. Almost 98 percent of Bonavista's undeveloped land is contained within our four Core Regions and the average working interest has increased from 81 percent in 1999 to 85 percent in 2000. This trend will continue due to the Company's focus on high working interest ownership. Bonavista has identified over 150 drilling locations on this undeveloped land base.

In 2001 the Company expects to continue increasing its undeveloped acreage and the number of drilling prospects. Total expenditures on Crown land purchases are anticipated to be $13 million in 2001. The following tables summarize Bonavista's inventory of undeveloped acreage on a year-to-year and Core Region comparative basis:

Year-end

December 31,	2000	1999	% Change
Gross acres	**755,949**	513,953	47%
Net acres	**642,507**	416,396	54%
Average working interest	**85.0%**	81.0%	4%
ESTIMATED VALUE ($ millions)	**$ 48.8**	**29.1**	**68%**

Regional Breakdown

	Gross	Net		Average Working Interest
	(acres)	(acres)	(% of total)	(%)
Northern region	234,719	213,954	33%	91.2%
Eastern region	309,163	271,361	42%	87.8%
Southern region	138,081	105,343	17%	76.3%
Central region	42,080	39,222	6%	93.2%
Other areas	31,906	12,627	2%	39.6%
TOTAL UNDEVELOPED LAND	**755,949**	**642,507**	**100%**	**85.0%**

SEISMIC

Bonavista utilizes extensive geophysics, both two and three dimensional, to delineate geological features such as pools or trends, to increase the certainty of its drilling prospects. In 2000, Bonavista invested $5.3 million in seismic related activity. Approximately $8.0 million of the 2001 capital program has been allocated to acquiring additional seismic data which will supplement our existing seismic database of over 16,000 kilometers.

PETROLEUM RESERVES

Bonavista's petroleum reserves have been evaluated as at January 1, 2001, by independent engineers. The following table summarizes the key information of these reserves:

	NATURAL GAS		OIL AND LIQUIDS		PRESENT VALUE OF CASH FLOW BEFORE TAX DISCOUNTED AT [2]		
	Gross [1]	Net [1]	Gross [1]	Net [1]	0%	10%	15%
	(mmcf)	(mmcf)	(mbbls)	(mbbls)	(thousands)		
Proven producing	174,707	136,954	5,843	5,065	$ 678,582	$ 503,864	$ 452,515
Proven nonproducing	51,191	39,023	841	795	160,439	93,303	6,406
ARTC	–	–	–	–	8,748	4,207	3,233
Total proven	225,898	175,977	6,684	5,860	847,769	601,374	532,154
Probable	63,980	49,243	1,971	1,718	216,063	112,122	89,091
ARTC	–	–	–	–	1,377	224	101
TOTAL	**289,878**	**225,220**	**8,655**	**7,578**	**$1,065,209**	**$ 713,720**	**$ 621,346**

(1) "Gross" reserves are the total remaining recoverable reserves owned by Bonavista before deduction of royalties. "Net" reserves are defined as those accruing to Bonavista after all royalty interests owned by others, including Crown and freehold royalties, have been deducted.

(2) The pricing forecast used in determining the value of cash flow is based on the January 1, 2001, McDaniel & Associates Consultants Ltd. engineering price forecast.

Reconciliation of Reserves

	NATURAL GAS (mmcf)			OIL AND LIQUIDS (mbbls)		
	Proven	Probable	Total	Proven	Probable	Total
Reserves, January 1, 1999	99,530	22,166	121,696	1,334	455	1,789
Net additions	106,733	21,396	128,129	1,406	337	1,743
Revisions	(643)	(1,504)	(2,147)	167	(43)	124
Production	(24,049)	–	(24,049)	(319)	–	(319)
Reserves, January 1, 2000	**181,571**	**42,058**	**223,629**	**2,588**	**749**	**3,337**
Net additions	**97,233**	**18,104**	**115,337**	**4,326**	**1,385**	**5,711**
Revisions	**(12,975)**	**3,818**	**(9,157)**	**454**	**(163)**	**291**
Production	**(39,931)**	**–**	**(39,931)**	**(684)**	**–**	**(684)**
RESERVES, JANUARY 1, 2001	**225,898**	**63,980**	**289,878**	**6,684**	**1,971**	**8,655**

RESERVE LIFE INDEX AND RESERVE REPLACEMENT RATIO

The following table outlines the longevity and the magnitude of reserve additions as indicated in the reserve life index and reserve replacement ratio for Bonavista in 2000:

	Natural Gas	Oil and Liquids	Total Boe
December 31, 2000 exit production	121 mmcf/day	2,700 bbls/day	14,800 boe/day
Reserve life index (years)			
Proven reserves	5.1	6.8	5.4
Proven and probable reserves	6.6	8.8	7.0
Reserve replacement ratio (reserve additions/2000 production)			
Proven	2.1	7.0	2.8
Proven and probable	2.7	8.8	3.6

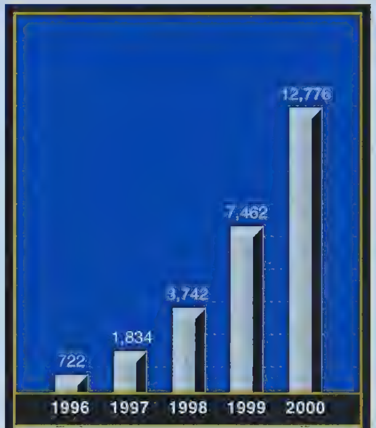
Efficiency Ratios

The following table outlines two performance measurements which depict the overall efficiency of capital invested during the year: Finding and on-stream costs and the Recycle ratio. In 2000, Bonavista posted strong results in these performance measurements which provided the foundation for strong growth in profitability.

	2000	1999	% Change
Net capital expenditures (thousands)	**$ 154,637**	$ 101,416	52%
Reserve additions (mboe)			
Proven	**13,206**	12,182	8%
Proven and probable	**16,620**	14,465	15%
Finding and on-stream costs ($/boe)			
Proven	**11.71**	8.32	41%
Proven and probable	**9.29**	7.01	33%
Cash flow netback ($/boe)	**29.74**	16.91	76%
Recycle ratio (Cash flow netback/finding and on-stream costs)			
Proven	**2.5**	2.0	25%
Proven and probable	**3.2**	2.4	33%

PRODUCTION

Bonavista's average daily production increased by 71 percent to 12,776 boe per day in 2000 from 7,462 boe per day in 1999. Natural gas production rose by 65 percent to 109.1 mmcf per day in 2000 from 65.9 mmcf per day in 1999, while oil and liquids production increased by 114 percent to 1,869 bbls per day in 2000 from 873 bbls per day in 1999. Entering the second quarter of 2001, production volumes are continuing to rise to approximately 15,600 boe per day, consisting of 126 mmcf per day of natural gas and 3,000 bbls per day of oil and liquids.



PRODUCTION
(boe/day)

Production by Region

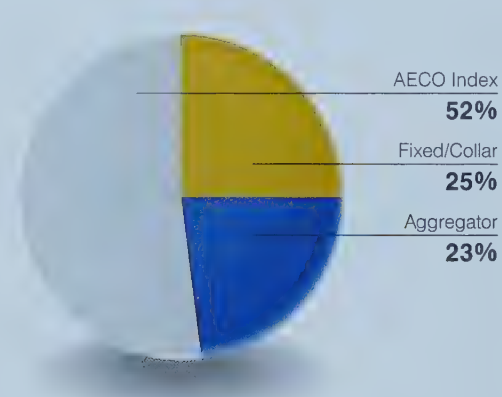
	2000 AVERAGE PRODUCTION			1999 AVERAGE PRODUCTION		
	Natural Gas (mmcf/day)	Oil and Liquids (bbls/day)	Total (boe/day)	Natural Gas (mmcf/day)	Oil and Liquids (bbls/day)	Total (boe/day)
Northern region	44.1	322	4,732	32.2	253	3,473
Eastern region	34.6	159	3,618	14.2	78	1,498
Southern region	12.2	509	1,729	10.2	26	1,046
Central region	14.9	457	1,946	7.4	201	941
Southeastern Saskatchewan	–	286	286	–	227	227
Other	3.3	136	465	1.9	88	277
TOTAL PRODUCTION	**109.1**	**1,869**	**12,776**	**65.9**	**873**	**7,462**

MARKETING

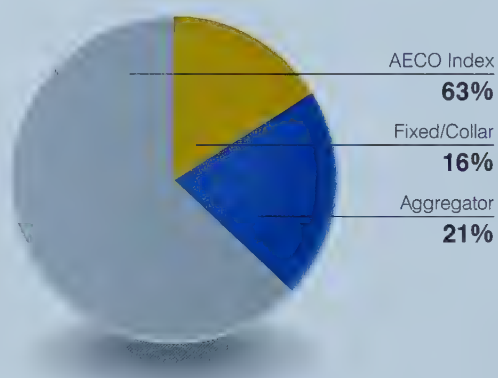
Natural Gas

The Company continues to maintain a risk-mitigating strategy and further develop a diverse natural gas sales portfolio which encompasses a variety of pricing mechanisms and term commitments. Bonavista's marketing objectives include protecting or securing fixed prices, for up to 25 percent of our anticipated production for terms up to two years. Our pricing methodology includes employing either collars, floors or fixed price contracts. In order to control and manage receivable-risk and ensure competitive bids, Bonavista engages a number of counterparties for our natural gas transactions. Our portfolio also includes sales to traditional aggregators.

The integration and application of these strategies has resulted in an average realized price of $4.67 per mcf for Bonavista in 2000 compared to $2.67 per mcf in 1999. For 2001, the Company is forecasting its natural gas price to average $6.25 per mcf. The respective contract portfolios for 2000 and a forecast for 2001 are comprised of the following:



2000
Average of $4.67/mcf
on 109 mmcf/day



2001F
Average of $6.25/mcf
on 135 mmcf/day

Oil and Liquids

Bonavista sells its oil and liquids production to three primary customers. This enables the Company to benefit from specific regional advantages while maintaining pricing and delivery flexibility. In 2000, Bonavista's oil and liquids price increased by 61 percent to $40.65 per bbl from $25.22 per bbl in 1999. Our current strategy does not involve hedging liquids prices. The 2001 budget is based on an average WTI price of US $25.00 per bbl which converts to approximately CDN $31.25 per bbl realization. Bonavista's average quality of its oil is approximately 32 degrees API and under one percent sulphur content.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of Bonavista's financial position and results of operations should be read in conjunction with the consolidated financial statements presented in this Annual Report.

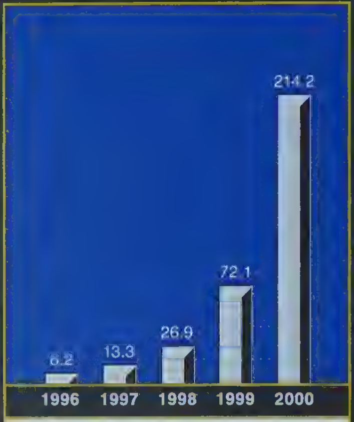
OVERVIEW

The tables below set forth a summary of operations, including netbacks for 2000 compared to 1999, and netback on a product basis:

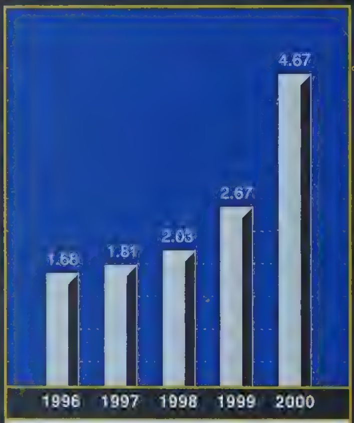
	2000		1999		% Change 2000 - 1999	
Production	12,776 boe/day		7,462 boe/day		71%	
	(thousands)	($/boe)	(thousands)	($/boe)	(total)	(/boe)
Field netback:						
Production revenue	$ 214,168	$ 45.80	$ 72,135	$ 26.49	197	73
Royalties, net of ARTC	(52,725)	(11.27)	(12,797)	(4.70)	312	140
Operating expenses	(15,321)	(3.28)	(9,169)	(3.37)	67	(3)
FIELD NETBACK	146,122	31.25	50,169	18.42	191	70
General and administrative	(996)	(0.21)	(876)	(0.32)	14	(34)
Financing charges	(5,452)	(1.17)	(2,830)	(1.04)	93	13
Capital taxes	(615)	(0.13)	(396)	(0.15)	55	(13)
CASH FLOW NETBACK	139,059	29.74	46,067	16.91	202	76
Depreciation, depletion and site restoration	(33,775)	(7.22)	(18,773)	(6.89)	80	5
Future income taxes	(43,924)	(9.39)	(10,196)	(3.74)	331	151
NET INCOME	$ 61,360	$ 13.13	$ 17,098	$ 6.28	259	109

Netback by Product

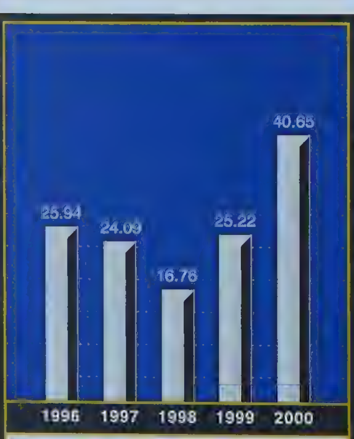
	Oil and Liquids		Natural Gas		2000 Total	
2000 Production	1,869 bbls/day		109.1 mmcf/day		12,776 boe/day	
	(thousands)	($/bbl)	(thousands)	($/mcf)	(thousands)	($/boe)
Field netback:						
Production revenue	$ 27,803	$ 40.65	$ 186,365	$ 4.67	$ 214,168	$ 45.80
Royalties, net of ARTC	(6,452)	(9.43)	(46,273)	(1.16)	(52,725)	(11.27)
Operating expenses	(3,744)	(5.47)	(11,577)	(0.29)	(15,321)	(3.28)
FIELD NETBACK	$ 17,607	$ 25.75	$ 128,515	$ 3.22	$ 146,122	$ 31.25



GROSS REVENUE
($ millions)



NATURAL GAS PRICING
($/mcf)



OIL AND LIQUIDS PRICING
($/bbl)

REVENUES

The continued execution of Bonavista's business plan resulted in significantly higher revenues, production, cash flow and net income again in 2000. Gross revenues for 2000 increased by 197 percent to $214.2 million from $72.1 million in 1999. Natural gas revenues rose by 191 percent to $186.4 million in 2000 from $64.1 million in 1999. Natural gas production for the year increased by 66 percent to 109.1 mmcf per day from 65.9 mmcf per day in 1999. At the same time, Bonavista achieved a 75 percent increase in the average natural gas price to $4.67 per mcf in 2000 from $2.67 per mcf in 1999. Revenues from oil and liquids also increased by 246 percent in 2000 to $27.8 million from $8.0 million in 1999, primarily as a result of a 114 percent increase in oil and liquids production to 1,869 bbls per day in 2000 from 873 in 1999 and a 61 percent increase in the average oil and liquids price to $40.65 per bbl in 2000 from $25.22 per bbl in 1999.

ROYALTIES

In 2000, royalties increased by 312 percent to $52.7 million from $12.8 million in 1999 due to significantly higher product prices and increased production volumes. The average royalty rate increased to 24.6 percent in 2000 from 17.8 percent in 1999.

OPERATING EXPENSES

Increased production volumes contributed to a 67 percent increase in operating expenses, which totaled $15.3 million in 2000 compared to $9.2 million in 1999. On a per boe basis, operating expenses declined by 3 percent to $3.28 in 2000 from $3.37 in 1999. The decrease in average unit operating expenses reflects Bonavista's continued emphasis on reducing operating expenses at existing properties and the lower unit cost of additional natural gas production brought on-stream in 2000.

GENERAL AND ADMINISTRATIVE EXPENSES

Net general and administrative expenses increased by 14 percent to $1.0 million from the prior year's expenses of $0.9 million. This increase was directly attributable to the increase in the overall size of operations in the Company. However, on a per unit basis, net general and administrative expenses decreased by 34 percent to $0.21 per boe in 2000 from $0.32 per boe in 1999. This occurred as a result of the Company's ability to manage a much larger capital and operating program in 2000 without a proportionate increase in corporate infrastructure.

FINANCING CHARGES

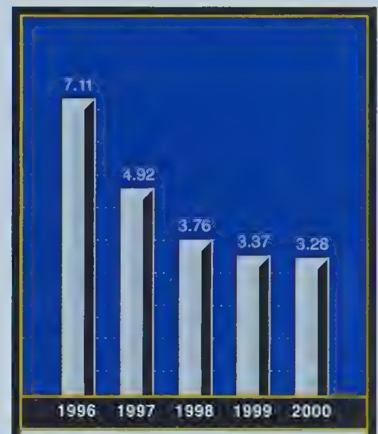
Financing charges increased by 96 percent in 2000 to $5.5 million from $2.8 million in 1999, reflecting higher average debt levels associated with the 2000 capital program and higher interest rates in 2000.

DEPRECIATION, DEPLETION AND SITE RESTORATION

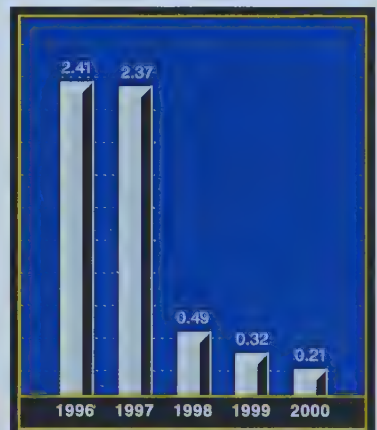
Depreciation, depletion and site restoration expenses rose by 80 percent to $33.8 million in 2000 from $18.8 million in 1999, as a direct result of Bonavista's increased asset base and production volumes. On a per boe basis, the average depreciation, depletion and site restoration rate increased slightly to $7.22 in 2000 from $6.89 in 1999, as a result of the increased average costs associated with the 2000 capital program. The 1999 amounts have been reduced by $0.8 million as a result of the retroactive adoption by the Company of the liability method of accounting for income taxes as recommended by the Canadian Institute of Chartered Accountants ("CICA").

INCOME AND OTHER TAXES

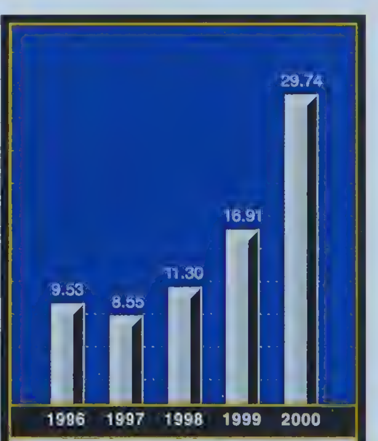
The provision for income and other taxes increased to $44.5 million in 2000 from the previous year's provision of $10.6 million. This increase resulted from the profitability in the Company due to increased production and higher commodity prices in 2000 and maintaining strict cost controls. Effective January 1, 2000, Bonavista adopted the new guideline of the CICA to account for income taxes. This resulted in a slightly higher effective tax rate used for recording income taxes.



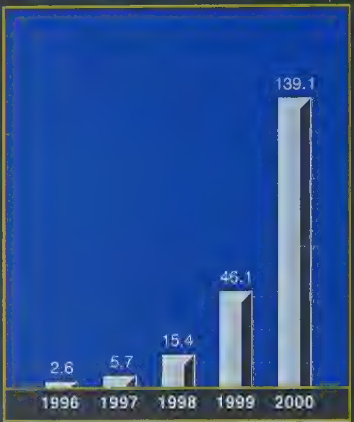
OPERATING EXPENSES
($/boe)



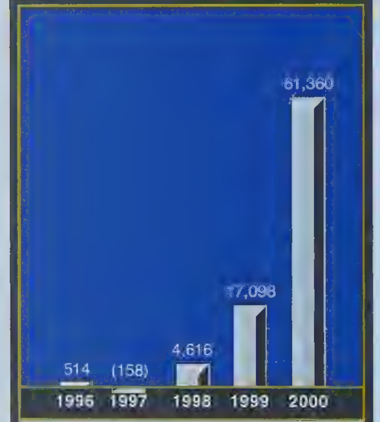
GENERAL AND ADMINISTRATIVE EXPENSES
($/boe)



CASH FLOW
($/boe)



CASH FLOW
($ millions)



NET INCOME
($ thousands)

CASH FLOW AND NET INCOME

Bonavista enjoyed a substantially higher cash flow in 2000 due to the Company's increased production and higher prices from both natural gas and liquids. Cash flow was 202 percent higher at $139.1 million or $4.90 per share basic, compared to $46.1 million or $1.83 per share basic in 1999. Cash flow per boe increased by 76 percent to $29.74 per boe in 2000 from $16.91 per boe in 1999 due to rising product prices, increased production levels and reductions in unit operating and general and administrative costs. In 2000, Bonavista achieved one of the highest cash flow netbacks in the industry. Due to the significant increase in product prices and capital investment recycle ratios, Bonavista continued its upward profitability trend. Net income increased by 259 percent to $61.4 million or $2.16 per share basic in 2000, from $17.1 million or $0.68 per share basic in 1999.

CAPITAL EXPENDITURES

Bonavista conducted a full-cycle exploration and development capital program in 2000, investing $154.6 million. During the year, the Company participated in the drilling of 134 wells, which resulted in an overall success rate of 84 percent. During 2000, Bonavista added 13.2 million boe of proven reserves and 16.6 million boe of proven and probable reserves through drilling and acquisitions, net of revisions and dispositions. With $154.6 million of net capital expenditures in 2000, the investment cost of 2000 reserve additions was $11.71 per boe proven and $9.29 per boe on a proven plus probable basis. The following table outlines the capital expenditures in 2000 compared to 1999:

(thousands)	**2000**	1999
Land and acquisitions	**$ 90,008**	$ 60,143
Geological and geophysical	**5,345**	2,587
Drilling and completions	**34,091**	23,884
Production equipment and facilities	**25,302**	14,603
Other	**136**	349
Total capital expenditures	**154,882**	101,566
Dispositions	**(245)**	(150)
NET CAPITAL EXPENDITURES	**$ 154,637**	$ 101,416

TAX POOLS

Bonavista had $269.7 million of tax pools as at December 31, 2000. These tax pools will shelter Bonavista's taxable income in future years as well as add flexibility to pursue acquisitions. The following table summarizes the tax pool balances as at December 31, 2000:

	Available Balance	Maximum Annual Deduction
	(thousands)	
Canadian Exploration Expense	$ 25,326	100%
Canadian Development Expense	32,705	30%
Canadian Oil and Gas Property Expense	142,971	10%
Undepreciated Capital Cost	60,242	8% – 30%
Other	8,494	20% – 100%
TOTAL	$ 269,738	

LIQUIDITY AND CAPITAL RESOURCES

Bonavista's 2001 capital expenditure program will be approximately $170 million. The capital program will be financed from approximately $220 million of cash flow expected to be generated in 2001, with the residual $50 million of excess cash being used to repay the Company's bank loan.

In 2001, primarily all of Bonavista's capital expenditures are discretionary expenditures focused on exploration, development and acquisition activity, with only $8 million of capital expenditures expected to be nondiscretionary in nature. Bonavista is readily able to adjust its expenditures as opportunities arise. At December 31, 2000, Bonavista's debt to running cash flow ratio was approximately 0.3:1. With the present profile of capital spending and cash flow growth, Bonavista anticipates its exit debt at December 31, 2001 to be less than 0.1 times cash flow based on 2001 exit production rates.

In anticipation of growing into a larger operating entity and with acquisition and development opportunities, Bonavista completed the refinancing of its new bank loan facility in January 2001, through the establishment of a $160 million revolving demand loan facility with a syndicate of Canadian chartered banks. This revolving demand loan facility bears interest at prime and does not require any principal repayments in 2001. This facility will be expanded as required, and has been set below Bonavista's current borrowing base. The Company settles sales receivables and trade payables in accordance with normal industry practices. Working capital liquidity is maintained through drawing and repaying the bank facilities.

BUSINESS RISKS

All companies in the Canadian oil and natural gas industry are exposed to a number of business risks, some of which are beyond their control. These risks can be categorized as operational, financial and regulatory.

Operational risks include finding and developing oil and natural gas reserves on an economic basis, reservoir production performance, marketing production, hiring and retaining employees and accessing contract services on a cost effective basis. By employing a team of highly qualified staff, providing a compensation system that rewards above average performance and developing strong long-term relationships with contract service providers, these risks are mitigated. The Company maintains an insurance program consistent with industry practice to protect against destruction of assets, well blowouts, pollution and other business interruptions. We also maintain a geologically diverse, but geographically concentrated prospect inventory, undertake a large drilling program and use proven technology where appropriate to minimize the cost of finding and developing oil and natural gas reserves.

Financial risks include commodity prices, interest rates and the Canadian/US exchange rate, all of which are largely beyond Bonavista's control. While the Company has used financial instruments in the past, currently there are none in place with respect to these risks. Bonavista's approach to management of these risks is to maintain a prudent level of debt, enter into certain fixed price, physical delivery, commodity-based contracts and use its strong financial position to fund exploration and development activities and acquisitions through fluctuations in these variables.

Bonavista is also subject to various regulatory risks, many of which are beyond our control. We take a proactive approach with respect to environmental and safety matters such as maintaining an environmental and safety program whereby major facilities are regularly audited. An operational emergency response plan is in place and is in compliance with current environmental legislation.

MANAGEMENT'S REPORT

The preparation of the accompanying consolidated financial statements in accordance with accounting principles generally accepted in Canada is the responsibility of management. Financial information contained elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management is responsible for the integrity and objectivity of the financial statements. Where necessary, the financial statements include estimates, which are based on management's informed judgments. Management has established systems of internal controls which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. It exercises its responsibilities primarily through the Audit Committee, all of whose members are nonmanagement directors. The Audit Committee has reviewed the consolidated financial statements with management and the auditors and have reported to the Board of Directors who has approved the consolidated financial statements.

KPMG LLP are independent auditors appointed by Bonavista's shareholders. The auditors have considered, for the purposes of determining the nature, timing and extent of their audit procedures, the Company's internal controls and have audited the consolidated financial statements in accordance with generally accepted auditing standards to enable them to express an opinion on the fairness of the financial statements.

Keith A. MacPhail
President and Chief Executive Officer

Ronald J. Poelzer
Executive Vice President
and Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Bonavista Petroleum Ltd. as at December 31, 2000 and 1999 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
February 26, 2001

CONSOLIDATED BALANCE SHEETS

December 31, (thousands)	2000	1999 (restated – note 5)
ASSETS		
Current assets		
Cash	$ –	$ 55
Accounts receivable	45,249	11,779
	45,249	11,834
Oil and natural gas properties and equipment (note 2)	280,593	158,599
Future income tax asset	–	7,069
	$ 325,842	$ 177,502
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 38,080	$ 22,610
Long-term debt (note 3)	75,534	43,221
Site restoration provision	4,808	3,811
Future income taxes (note 5)	36,855	–
Shareholders' equity		
Share capital (note 4)	87,551	86,206
Retained earnings	83,014	21,654
	170,565	107,860
	$ 325,842	$ 177,502

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Michael M. Kanovsky, Director

Clayton H. Woitas, Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Years ended December 31,	2000	1999
(thousands, except per share amounts)		(restated – note 5)
REVENUES		
Production	**$ 214,168**	$ 72,135
Royalties, net of Alberta Royalty Tax Credit	**(52,725)**	(12,797)
	161,443	59,338
EXPENSES		
Operating	**15,321**	9,169
General and administrative	**996**	876
Financing charges	**5,452**	2,830
Depreciation, depletion and site restoration	**33,775**	18,773
	55,544	31,648
Income before income and other taxes	**105,899**	27,690
Income and other taxes (note 5)	**44,539**	10,592
NET INCOME	**61,360**	17,098
Retained earnings, beginning of year	**21,654**	4,556
RETAINED EARNINGS, END OF YEAR	**$ 83,014**	$ 21,654
NET INCOME PER SHARE - BASIC	**$ 2.16**	$ 0.68
NET INCOME PER SHARE - DILUTED (note 4 (c))	**$ 2.05**	$ 0.61

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,	2000	1999
(thousands, except per share amounts)		(restated – note 5)
Cash provided by (used in)		
OPERATING ACTIVITIES		
Net income	**$ 61,360**	$ 17,098
Items not requiring cash from operations		
Depreciation, depletion and site restoration	**33,775**	18,773
Future income taxes	**43,924**	10,196
Cash flow from operations	**139,059**	46,067
Decrease (Increase) in non-cash working capital items	**(18,000)**	8,667
	121,059	54,734
FINANCING ACTIVITIES		
Issuance of share capital, net of share issue costs	**1,345**	41,156
Increase in long-term debt (note 3)	**32,313**	9,386
	33,658	50,542
INVESTING ACTIVITIES		
Oil and natural gas properties and equipment additions	**(154,882)**	(105,266)
Proceeds on sale of oil and natural gas properties	**245**	150
Site restoration expenditures	**(135)**	(126)
	(154,772)	(105,242)
Increase (Decrease) in cash	**(55)**	34
Cash, beginning of year	**55**	21
CASH, END OF YEAR	**$ –**	**$ 55**
CASH FLOW FROM OPERATIONS PER SHARE - BASIC	**$ 4.90**	**$ 1.83**
CASH FLOW FROM OPERATIONS PER SHARE - DILUTED (note 4 (c))	**$ 4.65**	**$ 1.64**

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2000 and 1999

1. SIGNIFICANT ACCOUNTING POLICIES

As a determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these consolidated financial statements requires the use of estimates and assumptions, which have been made using careful judgement. In the opinion of management, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Principles of consolidation

The consolidated financial statements include the accounts of Bonavista Petroleum Ltd. (the "Company") and its wholly owned subsidiaries and partnership.

(b) Oil and natural gas operations

The Company follows the full cost method of accounting, whereby all costs associated with the exploration for and development of oil and natural gas reserves are capitalized in cost centres on a country-by-country basis. Such costs include land acquisitions, drilling, well equipment and geological and geophysical activities. General and administrative costs are not capitalized. Gains or losses are not recognized upon disposition of oil and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20 percent or more.

Costs capitalized in the cost centres, including well equipment, together with estimated future capital costs associated with proven reserves, are depreciated and depleted using the unit-of-production method which is based on gross production and estimated proven oil and natural gas reserves as determined by independent engineers. The cost of significant unproven properties is excluded from the depreciation and depletion base. For purposes of the depreciation and depletion calculations, oil and natural gas reserves are converted to a common unit of measure on the basis of their relative energy content. Facilities are depreciated using the declining balance method over their useful lives, which range from 12 to 15 years. Office equipment is recorded at cost and is depreciated over the useful life of the assets on the declining balance basis at 20 percent.

The provision for future site restoration costs is calculated using the unit-of-production method and is included within the provision for depreciation, depletion and site restoration. Costs are estimated each year by management based upon current regulations, costs, technology and industry standards. Actual costs as incurred are charged against the accumulated liability.

In applying the full cost method, the Company calculates a ceiling test which restricts the capitalized costs less accumulated depreciation and depletion from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and natural gas reserves, based on year-end prices and costs, plus the cost, net of impairments, of unproved properties and after deducting estimated future site restoration costs, general and administrative expenses, financing costs and income taxes.

(c) Financial instruments

From time to time, the Company may use swap agreements or other financial instruments to hedge its exposure to fluctuations in oil and natural gas prices. Gains and losses arising from these swap arrangements are reported as adjustments to the related revenue account over the term of the financial instrument. Financial instruments are not used for speculative purposes. The carrying values of the Company's monetary assets and liabilities approximate their fair values.

(d) Income taxes payable

The Company follows the liability method of accounting for future income taxes.

(e) Per share amounts

Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments, in accordance with new standards approved by the CICA.

2. OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT

December 31, 2000	Cost	Accumulated Depreciation and Depletion	Net Book Value
(thousands)			
Oil and natural gas properties	$ 279,536	$ 58,366	$ 221,170
Facilities and well equipment	71,498	12,615	58,883
Office equipment	1,036	496	540
	$ 352,070	$ 71,477	$ 280,593
December 31, 1999			
(thousands, restated – note 5)			
Oil and natural gas properties	$ 150,337	$ 29,488	$ 120,849
Facilities and well equipment	46,196	8,985	37,211
Office equipment	900	361	539
	$ 197,433	$ 38,834	$ 158,599

Unproved property costs of $35,144,000 as at December 31, 2000 (1999 - $21,856,000) were excluded from the depreciation and depletion calculation. During the year ended December 31, 2000, the Company recorded a provision of $1,132,000 (1999 - $1,947,000) for site restoration in the consolidated financial statements.

3. LONG-TERM DEBT

The Company has a $160 million revolving demand loan facility with a syndicate of Canadian chartered banks, which provides that borrowings may be made by way of prime loans, banker's acceptances and/or US$ LIBOR advances. These advances bear interest at the banks' prime rate and/or at money market rates plus a stamping fee. The bank loan facility is secured by a first floating charge debenture, general assignment of book debts and the Company's oil and natural gas properties and equipment and is subject to an annual review by the lenders. Although the revolving line of credit is payable on demand, the lenders have advised that they do not intend to demand repayment of the outstanding principal balance on the credit facility prior to December 31, 2001. During the year ended December 31, 2001 the Company paid interest of $5,351,000 (1999 – $2,728,000).

4. SHARE CAPITAL

(a) Authorized

Unlimited number of voting Common Shares and Preferred Shares.

(b) Common shares issued

	Number	Amount
(thousands)		
Outstanding as at December 31, 1998	22,459	$ 48,750
Issued for cash:		
Private placement of shares	2,500	35,000
Private placement of flow-through common shares	58	1,035
Exercise of Special A Warrants and Purchase Obligations	3,150	6,300
Exercise of stock options	90	296
Estimated tax cost of renounced expenditures	–	(3,700)
Costs associated with shares issued	–	(1,475)
Outstanding as at December 31, 1999	28,257	$ 86,206
Issued for cash:		
Private placement of flow-through common shares	**15**	**449**
Exercise of stock options	**204**	**1,059**
Cost associated with shares issued	**–**	**(163)**
OUTSTANDING AS AT DECEMBER 31, 2000	**28,476**	**$ 87,551**

(c) Per share amounts

In the fourth quarter of 2000, the Company retroactively adopted the treasury stock method, the new standard approved by the CICA, instead of the imprinted earnings method to determine the dilutive effect of stock options and other dilutive instruments. During the year ended December 31, 2000, there were 28,371,099 (1999 – 25,142,340) weighted average shares outstanding. On a diluted basis, there were 29,904,068 (1999 – 28,015,432) weighted average shares outstanding.

If the imputed earnings method had been used to calculate diluted per share amounts, the reported amounts would be:

	2000	1999
Diluted cash flow from operations per share	**$ 4.60**	$ 1.62
Diluted net income per share	**$ 2.05**	$ 0.62

(d) Options

The Company has established a stock option plan whereby officers, directors, and employees may be granted options to purchase Common Shares. The options are granted for a term of five years and vest at the rate of either 25 percent or 33 1/3 percent per year.

A summary of stock option transactions for the years ended December 31, 2000 and 1999 is as follows:

	2000		1999	
	Options Outstanding	**Weighted Average Exercise Price**	Options Outstanding	Weighted Average Exercise Price
January 1,	**2,271,402**	**$ 5.53**	2,065,166	$ 3.77
Granted	**287,400**	**26.60**	417,000	13.01
Exercised	**(204,565)**	**5.18**	(90,129)	3.29
Cancelled	**(73,851)**	**8.91**	(120,635)	2.88
DECEMBER 31,	**2,280,386**	**$ 8.11**	**2,271,402**	**$ 5.53**

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2000:

	OPTIONS OUTSTANDING			**OPTIONS EXERCISABLE**	
Range of Exercise Prices	**Number Outstanding at Year-end**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number Exercisable at Year-end**	**Weighted Average Exercise Price**
$ 1.35 to $6.25	**1,252,985**	**1.9**	**$ 2.62**	**1,033,818**	**$ 2.34**
$ 6.25 to $14.40	**740,001**	**3.2**	**10.22**	**110,616**	**7.83**
$ 21.50 to $28.75	**287,400**	**4.6**	**26.60**	**–**	**–**
$ 1.35 to $28.75	**2,280,386**	**2.7**	**$ 8.11**	**1,144,444**	**$ 2.87**

5. INCOME TAXES

Effective January 1, 2000, the Company adopted the liability method of accounting for income taxes as recommended by CICA. This policy has been adopted retroactively with prior period restatement by reducing oil and natural gas properties and equipment by $17.3 million, future income taxes by $10.2 million and establishing a future tax asset of $7.1 million as at December 31, 1999. The provision for income taxes has been increased by $822,000 and depreciation, depletion and site restoration charges have been decreased by $822,000 for the year ended December 31, 1999 resulting from the retroactive application of this accounting policy change.

The provision for income tax differs from the result, which would have been obtained by applying the combined Federal and Provincial income tax rate to the income before taxes. This difference results from the following items:

Years ended December 31,		**2000**		1999
Expected tax rate		**44.3%**		44.3%
(thousands)				(restated – note 5)
Expected tax expense:	**$**	**46,913**	$	11,903
Non-deductible Crown payments, net of				
the Alberta Royalty Tax Credit		**18,944**		4,589
Resource Allowance		**(20,715)**		(6,302)
Other		**(1,218)**		6
Capital taxes		**615**		396
PROVISION FOR INCOME TAXES	**$**	**44,539**	**$**	**10,592**
The provision for income taxes consists of:				
Current	**$**	**615**	$	396
Future		**43,924**		10,196
PROVISION FOR INCOME TAXES	**$**	**44,539**	**$**	**10,592**

The significant components of future income tax liabilities and assets as at December 31 are:

		2000		1999
(thousands)				
Oil and natural gas properties	**$**	**39,692**	$	(1,330)
Facilities and well equipment		**(338)**		(2,701)
Site restoration provision		**(1,985)**		(1,582)
Losses carried forward		**–**		(784)
Share issue costs		**(514)**		(672)
FUTURE INCOME TAXES (ASSET)	**$**	**36,855**	**$**	**(7,069)**

THE BONAVISTA TEAM

Michael Aikman
Renée Amendt
Jennifer Bailie
Joanne Bell
Connie Black
Lamont Brooks
Allan Carswell
Georgina Crump
John Curkan
Bob Dallyn
Steve Dalman
Margaret Ann Eckhardt
Tammy Freeman

Dan Fry
Dwight Gaab
Tim Galbreath
Jerri Graf
Myrna Griffin
Glenn Hamilton
Kerrie Hamilton
Tracey Hiemstra
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Pat Miles
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Debbie Puglia
Kathy Reinhart
Darren Roblin
Bob Schonknecht
Jason Skehar
Hank Spence

Doug Stewart
Bill Styan
John Taylor
Heather Tease
Johannes Thiessen
Chris Turpin
Alex Verge
Shelly Wilson
Brent Woods
Wendy Yu

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HARRY L. KNUTSON,
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Profico Energy Management Ltd.

OFFICERS AND SENIOR MANAGEMENT

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Executive Vice President and C.F.O.

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Vice President, Land

GLENN A. HAMILTON,
Vice President, Finance

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Vice President, Operations

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Vice President, Engineering

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Marketing Manager

JOHANNES H. THIESSEN,
Exploration Manager

GRANT A. ZAWALSKY,
Corporate Secretary

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Chartered Accountants
Calgary, Alberta

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Bank of Montreal
Royal Bank of Canada
Calgary, Alberta

ENGINEERING CONSULTANTS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

LEGAL COUNSEL

Burnet, Duckworth & Palmer
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

CIBC Mellon Trust Company
Calgary, Alberta

For shareholder inquiries regarding security holdings, please contact the CIBC Mellon Trust Company at 1-800-387-0825

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ABBREVIATIONS

ARTC	Alberta Royalty Tax Credit
bbls	Barrels
bbls/day	Barrels per day
mbbls	Thousand barrels
boe	Barrel(s) of oil equivalent
boe/day	Barrel(s) of oil equivalent per day
mcf	Thousand cubic feet
mcf/day	Thousand cubic feet per day
mmcf	Million cubic feet
mmcf/day	Million cubic feet per day
bcf	Billion cubic feet
WTI	West Texas Intermediate

Units of natural gas are converted into a barrel of oil equivalent at a ratio of ten thousand cubic feet of natural gas to one barrel of oil.

BONAVISTA

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